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SUBJECT: SOUTH AFRICA'S TRADE WITH CHINA

¶1. Summary. A report by a South African bank group describes the impact of China's growing importance as a trade partner with South Africa, particularly since its accession to the World Trade Organization (WTO) in December 2001. Trade between South Africa and China has been booming since the late 1990s and is likely to expand even more rapidly over the next decade. China is ranked South Africa's fifth largest trading partner. In 2003, imports from China accounted for 6.5% of total South African imports while exports to China accounted for 2.4% of total exports. Despite the rapid growth in South Africa-China trade, South Africa's two largest trade partners, Germany and the U.S. respectively, represent more than twice the value of China total trade. End summary.

¶2. This cable reports on South Africa's trade with China and uses an Amalgamated Banks of South Africa Limited (ABSA) publication on South African foreign trade as the main source document. According to the ABSA publication, China has become a force to be reckoned with in the international trade arena, particularly since its accession to the World Trade Organization (WTO) in December 2001. China is already the world's second largest economy, in terms of purchasing power parity, and the ABSA publication expects it to displace the United States as the biggest economy within two or three decades. The World Trade Organization's 2004 World Trade Report states that between 2000 and 2003, China was the only country which continued to record a sharp increase in both export and import ratios, reflecting both the increased openness of the Chinese economy and its role in sustaining the global trade expansion over the last three years. At current growth rates of close to 10% per annum and an investment/GDP ratio of nearly 50%, concerns are growing about a capacity overhang in and overheating of the Chinese economy. There are therefore reasons to believe that the current super high growth rates will moderate, but that relatively high growth rates will most likely be sustained for another decade or more.

¶3. According to the ABSA publication, changes in the composition of Chinese exports have been transforming the country from a low-tech, low-value-added exporter to a higher value-added exporter, which holds important implications for all countries that have trade links with China. The ABSA publication further states that whilst many South African manufacturers may view the "red dragon" as a threat, the opportunities that China presents for South African exporters should not be underestimated. The Chinese market, comprising more than 1.3 billion people, is still largely untapped and could provide efficient and internationally competitive South African exporters with very real growth opportunities. The ABSA report also focuses on how the Chinese presence has also become a reality on the South African domestic front. Trade between South Africa and China has been booming since the late 1990s and the report expects an even more rapid expansion over the next decade amidst talks of establishing a free trade agreement between the two countries.

¶4. South African Revenue Service (SARS) trade data shows that in 2003 China was ranked South Africa's fifth largest trading partner, moving up eight positions over the past six years. Total merchandise trade with China totaled R5.3 billion in 1998 and R23.3 billion in 2003. This represents a nominal growth of more than 36% per annum over the period and far outweighs the growth in trade with Germany, the United States, the United Kingdom and Japan. Despite this rapid growth, South Africa-China trade is still less than one-half that of South Africa's trade with its largest partners, Germany and the U.S., respectively. Imports from China increased by an average of 34% annually (in nominal terms) between 1998 and 2003, from R4.3 billion to R16.6 billion. This represents an average of 4.3% of South Africa's total import value over the period 1998-2003. Exports to China increased from less than R1 billion in 1998 to R6.7 billion in 2003. During the first eleven months of 2004 total trade with China valued at R27.1 billion. (Note: the base year is 1998 because that is the year when South Africa formally recognized China.)

15. The ABSA publication points out that despite the strength of the rand, which had a dampening effect on the overall value of South African exports in 2003, the value of goods exported to China in 2003 was almost 42% higher than in 2002. Even with this strong growth in the value of South African exports to China, however, South Africa still maintains a sizable trade deficit with China. In 1998 South Africa's trade deficit with China stood at R3.4 billion, and increased to R9.9 billion in 2003.

Imports

16. SARS trade data indicates that Chinese imports are steadily making inroads into the South African economy. In 1998, imports from China accounted for 3% of total South African imports. In 2003 China's share increased to 6.4% and based on the available eleven months' trade data for 2004, China's share could increase to above 7% in 2004. Based on the average share of imports over the period 1998 to 2003, the following product categories represented South Africa's largest imports from China:

- Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (chapter 16);
- Textiles and textile articles (chapter 11);
- Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair (chapter 12);
- Products of the chemical or allied industries (chapter 6); and
- Miscellaneous manufactured articles (chapter 20).

Together these five product categories accounted for 70% of the total import value from China over the period 1998 to 2003. Almost one third of the value of imports from China was accounted for by a single product category, i.e. machinery, electrical equipment, sound recorders etc, while textiles and textile articles accounted for an additional 13%. Footwear and chemical products accounted for 9% and 8%, respectively, of South African imports from China, with miscellaneous manufactured articles accounting for an additional 8%.

17. The ABSA publication highlights very high levels of growth in imports from China in most of the product categories. In the case of footwear products, for example, imports from China grew at a nominal rate of 43% per annum between 1998 and 2003, increasing China's share of total South African footwear imports from 27% in 1998 to 70% in 2003. Textile and apparel imports from China increased by 42% annually (in nominal terms) between 1998 and 2003, accounting for almost 70% of the apparel imports in 2003 and resulting in China capturing 30% of the local market in 2003 against an 8% share in 1998. Newspaper reports indicate that many South African producers feel threatened by the high level of very competitive Chinese imports that have penetrated the South African market over the past six years.

Exports

18. International trade data shows that China has already started to increase its level of imports from the rest of the world and this represents an opportunity for South African exporters to exploit. According to SARS trade data, South African exports to China have traditionally been concentrated within the mineral products and base metals segments of the market. Between 1998 and 2003, mineral products accounted for almost 42% of the total value of SA to China and base metals for an additional 26%, thus more than two thirds of total export value to China. In 2003 the share increased to more than 70% of the value, although it was the base metals product category that started to play a greater role. Other top exports to China, based on the average share of exports over the period 1998 to 2003, include:

- Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles;
- Products of the chemical or allied industries; and -- Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard of paper or paperboard; paper and paperboard and articles thereof.

These top five export categories together accounted for 85% of the total export value of South African goods exported to China. The growth in exports for these five product categories was in excess of 30% per annum between 1998 and 2003.

19. According to the ABSA publication, almost 80% of mineral

product exports to China comprised iron ores and concentrates (HS2601), with China being the largest destination of such exports from South Africa, accounting for 35% of South Africa's total export value in 2003. The composition of base metal exports to China was more evenly spread, with copper bars, rods and profiles (HS7407), flat rolled stainless steel products (HS7219) and ferro-alloys (HS7202) on average accounting for 18%, 17% and 15%, respectively, of the total value of base metal exports between 1998 and 2003. An interesting fact from the ABSA publication is that although China was South Africa's single largest destination of copper bars, rods and profiles over the period 1998 to 2003, the growth in exports of such products to China declined since 1998. As a result China's share of South Africa's total exports of copper bars, rods and profiles decreased from 31% in 1998 to 19% in 2003. The publication also points out that South Africa's largest chemical export product to China between 1998 and 2003 on a product level was ketones and quinones, whether or not with other oxygen function, and their halogenated, sulphonated, nitrated or nitrosated derivatives (HS2914) accounting for 30% of such exports over the period. China was the fifth largest consumer of these exports from South Africa, representing 9% of South African exports. Acyclic alcohols and their halogenated, sulphonated, nitrated or nitrosated derivatives (HS2905) was another important chemical export product for South Africa. China was the third largest export destination of such exports, accounting for 10% of total exports of these products over the period 1998 and 2003, but growing at an average annual rate of more than 73% over the period.

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